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WEEKLY SUMMARY



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**The Weekly Summary will not be published on 21 January.
The next issue of the Weekly Summary will appear on
28 January.**

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SECRET**H I G H L I G H T S**

Even though Egypt and Israel have complied with the most recent UN action on the Palestine problem, in accepting the Security Council's cease-fire resolution of 29 December, prospects for a final settlement in the current negotiations between the two countries are not bright. If the Israelis make some concessions to the Egyptian point of view, Egypt will probably feel justified in continuing negotiations (see page 10). If, however, Israel chooses to disregard US and British pressure for a settlement and takes an uncompromising line, the negotiations will break down and the costly "armed truce" will be resumed. Meanwhile, both the UK and Israel have apparently determined to regard the recent shooting of the RAF planes as "a regrettable incident."

The situation in China continues to be unresolved as a consequence of Chiang Kai-shek's renewed determination to continue his resistance to the Communists (see page 13). The scornful rejection by the Communists of Chiang's 1 January bid for peace appears to have been largely responsible for bolstering his resistance. Meanwhile, the current Communist assault on Tientsin is likely to bring the capitulation of this North China industrial city within a few days (see page 14).

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SECRET**W E S T E R N E U R O P E**

European Unity The British request for a postponement of further meetings of the Western Union Committee on European political unity reveals the seriousness of British objections to the establishment of a European parliamentary assembly and the continued British caution regarding political commitments in western Europe. The British request, ostensibly based on the need for further Cabinet consideration of the issue, was made after the committee reportedly had compromised between the French and British proposals for increasing political cooperation by recommending the establishment of both the French-sponsored European consultative assembly and the British-proposed council of cabinet ministers. The British decision, which was undoubtedly made after weighing the risk of further straining Anglo-French relations, appears to have been based on fears of: (1) being pressured into European commitments it does not wish to assume at this time; (2) embarking on a path that might result in premature limitations on UK sovereignty; (3) not being able to reconcile British Commonwealth considerations with European aspirations; and (4) establishing another international forum which would accomplish little besides exacerbating and publicly airing the differences between the nations.

UNITED KINGDOM

Economic Progress The UK made excellent progress during 1948 toward eventual economic recovery, although many basic problems remain to be solved. Progress was made possible by such factors as: (1) increased production for export; (2) severe import restrictions and continued austerity conditions at home; (3) the moral and financial support afforded by the European recovery program; and (4) an expansion of profitable bilateral trade agreements. The 1948 over-all export goal has probably been substantially achieved, the international balance of payments deficit has been reduced to a manageable size, and the British pound sterling now commands more prestige than at any time since World War II.

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SECRET**UNITED KINGDOM**

Despite these favorable signs of recovery, the year 1949 will be a critical one for the UK. In the vitally important coal industry, production in 1948 was not encouraging and prospects for achieving 1949 production targets are bleak. The over-all industrial production curve appears to be flattening out. The developing buyers' market for many British products will face the UK with increasing competition from other exporters and could jeopardize the attainment of British export goals for 1949. Britain's huge wartime indebtedness to other countries remains to be dealt with, and the problem of servicing the US and Canadian postwar loans will eventually have to be met. Nevertheless, British progress during 1948 moves the UK definitely nearer to full economic recovery.

GERMANY

Inflation Symptoms Serious inflationary symptoms in western Germany, if permitted to develop unchecked, may eventually reduce this area's contribution to European recovery. These symptoms include the increasing disparity between income and prices, the failure of production to keep pace with demand, and the diversion of both production and money into irregular channels. German officials are adding to the inflationary trend by their failure to enforce price and distribution controls and to effect reductions in government expenditures. Moreover, business concerns are evading taxes, concealing artificial price boosts, and engaging in extensive black-market operations. Initial effects of this growing inflation have appeared among the salaried and laboring people, who are agitating for relief in the form of price controls or higher income. If the wage-price disparity continues, leaders of non-Communist trade unions will find it necessary either to threaten strike action or to risk loss of members to the Communists or the extreme Rightists. Western efforts to maintain economic and political

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SECRET**GERMANY**

stability will be further hampered by the increase in black markets and illicit trade with neighboring areas. As general unrest rises, production in German industries vital to western European recovery may decline. In addition to jeopardizing recovery in western Europe, any appreciable loss of German production would also increase the burden being borne by the US and complicate the administrative problems of the occupation forces.

Fightist Growth Rightist-nationalist political groups are gaining strength in the western zones and are beginning to organize loosely-knit inter-zonal associations. This growth is being stimulated by general German hostility to allied interference in internal German affairs, the demonstrated inability of the more moderate parties to improve the position of industrial and financial groups supporting them, and the diminishing ability of allied enforcement agencies to control internal German politics. The development of strong, well-integrated nationalist parties will jeopardize attainment of occupation objectives, because such nationalist groups will: (1) aggressively exploit a future "provisional" government as well as the unpopularity of occupation policies; (2) increase their membership considerably from the ranks of the more moderate parties as well as from the mass of the population not yet politically committed; and (3) ultimately demand concessions from both the US and the USSR in return for promises of German support.

FRANCE

Political Maneuvers A trend toward political re-alignment in France is apparent from efforts by the Popular Republicans (MRP), the Catholic centrist party, to recoup the losses suffered in recent elections and to increase its influence in the moderate coalition government.

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FRANCE

Because the MRP apparently expects a severe setback in any new elections for the Assembly, some of its leaders may reconsider a bid rejected in November to align the MRP with De Gaulle's Rally of the French People. Such reconsideration will depend upon: (1) the ability of the MRP leaders to unite for the purpose of securing the support of unorganized labor; (2) the outcome of local cantonal elections in March; and (3) the degree of post-election independence promised the MRP by De Gaulle.

ITALY

Socialist Policy The moderate Socialist Cabinet members are being subjected to strong pressure from both the moderate and left Socialist parties to sever relations with the De Gasperi Government on the grounds that Italy's coalition government has not produced substantial economic and social reforms. Moreover, the moderate Socialist Cabinet members have threatened to resign rather than agree to a military pact between Italy and the west, although this disagreement may eventually be resolved when the concrete advantages of such an alliance become more apparent. Meanwhile, left-wing Socialists are being urged to sever all relations with the Communists and to rejoin the moderate Socialists. If they could do so without making it necessary for all Socialists to leave the Government, united pressure could be exerted on the De Gasperi Government for far-reaching reforms, and the conservative Liberal Party might resign.

SECRET**E A S T E R N E U R O P E**

Communist Penetration Soviet determination to use the World Federation of Democratic Youth (WFDY) and its component national youth movements as instruments for the penetration of western European armed forces is suggested by a report that WFDY delegates recently attended a secret Paris conference held for this purpose. Although the WFDY has become an increasingly effective arm of Communist propaganda (it claims 50 million members in 60 countries), it has ostensibly left penetration work to Communist Party cadres. The Soviet delegate at the Paris Conference, however, reportedly discussed "disintegration work and the training of partisans," citing Communist activity in the French Army as an example for British and US youth groups, and calling for "conscript clubs" as the initial step in such work. Plans for such increased penetration activity are also indicated by: (1) the Kremlin's designation of an important Soviet Youth official to attend the Paris meeting; (2) an appeal by the WFDY to younger army elements; and (3) an accelerated campaign by the WFDY to bolster European and Latin American support for the Soviet drive in "defense of peace."

S O V I E T U N I O N

Soviet Intentions Recent Soviet and Satellite propaganda indicates that the Kremlin may now consider the early formation of an east German state to offer several advantages. Rather than attempt to cast the blame for a split Germany upon the western powers by waiting until the establishment of a west German provisional government, the USSR may now "justify" formation of an east German state which claims sovereignty over all of Germany on the grounds that current plans for a west German state are

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SECRET**SOVIET UNION**

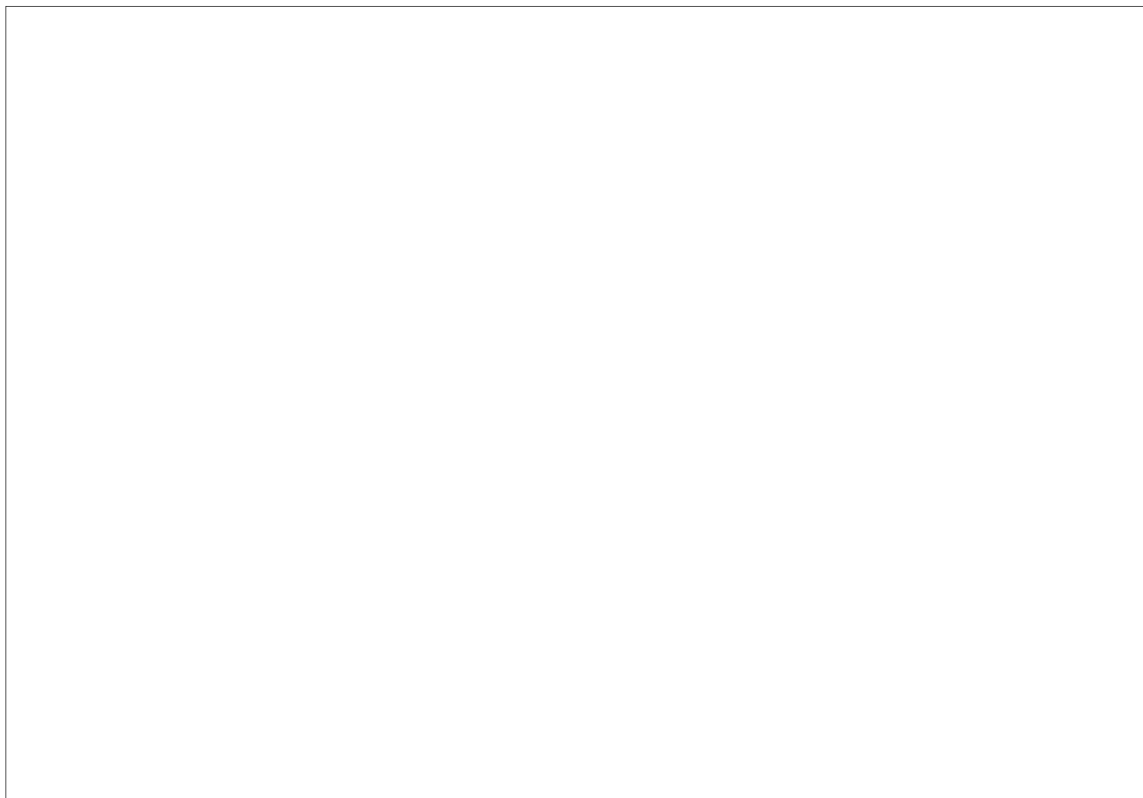
virtually completed. Such propaganda claims, however, would have little effect within Germany. Although actual Soviet troop withdrawals following establishment of the new state would depend upon how quickly the USSR could safely transfer authority to the German puppet regime, the USSR could easily recognize the new German state and then accede to its request for the continued presence of Soviet soldiers. The Kremlin would probably estimate that such an arrangement, if accompanied by partial withdrawal and implying later complete withdrawal, would have a propaganda appeal throughout Germany and could result in increased demands for withdrawal of the western powers. In addition to these advantages for the USSR, some measure of Soviet prestige within Germany might be salvaged and general attention would be temporarily diverted from the Berlin blockade. Moreover, the USSR could avoid at least partial responsibility for the continuation of the blockade by insisting that the Communist rump government had control over Berlin. In any event, such an action would have the effect of interjecting an allegedly legal government for all Germany into the Berlin conflict.

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GREECE

Government Changes Prime Minister Sophoulis' Populist-Liberal government is undergoing its first major face-lifting since September 1947. Former Prime Minister George Papandreou, who heads a bloc of 30 Centrist deputies, has agreed to join the Cabinet as Minister of War, with the additional rank of Deputy Prime Minister, and three of his followers are slated to receive Cabinet posts. Cabinet leaders are also attempting to bring other opposition groups into the Government. Although these innovations promise no spectacular immediate results, they should in the long run facilitate some much-needed improvements in the functioning of the government. Papandreou has strong ideas about tax reform, civilian mobilization, and the refugee problem, and

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GREECE

his bloc of votes should prevent the Government from being engulfed in another enervating political crisis when parliament reconvenes on 1 February. Meanwhile, the Government has failed in its attempts to strengthen the army's leadership as a result of the refusal of Field Marshal Alexander Papagos, hero of the 1940 Albanian campaign, to accept the new post of Commander-in-Chief. Although the Government has been willing to give Papagos sweeping powers, it has refused to grant him the virtually complete freedom from political supervision which he demanded as a condition to taking the post.

SECRET**NEAR EAST - AFRICA**

Arab League Efforts of the individual Arab states to find a way of quietly extricating themselves from the Palestine morass point to the continuing disintegration of the Arab League. Despite cries by Azzam Pasha, the League's Secretary General, for a "do or die" war against Zionism, Lebanon is remarkably amiable about the Israeli troops on its soil. Syria and Iraq have not taken the offensive for months, although Iraqi troops are still firmly entrenched in Central Palestine. Nuri Said, the new Iraqi Prime Minister, is openly hostile to the Arab League. Egypt's new Prime Minister, Abdel Hadi, whose dislike of the Arab League is well known, may terminate Egypt's membership in the League so that in negotiations over Palestine Egypt will be unhampered by criticism and advice from the other Arab states. King Abdullah would be more than delighted to see the League fold up. It has been the focal point of united opposition to his Greater Syria Plan and an obstacle to his annexation of Arab Palestine.

PALESTINE

Egypt Truce Talks Although Egypt and Israel have accepted the Security Council cease-fire order, prospects for a final settlement during the current negotiations between the two countries are not bright. Jewish military leaders are convinced that they can achieve more by military action than through UN arbitration and are disappointed that Israel accepted the cease-fire before the Egyptian Army had been completely defeated and pushed out of Palestine. Israeli political leaders, however, were sufficiently sensitive to pressure by the US and UK to accept the cease-fire. If the Provisional Government of

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SECRET**PALESTINE**

Israel (PGI) remains responsive to US and UK pressure and makes some concessions to Egypt (such as relieving the trapped Faluja garrison and agreeing to Egyptian control of the Gaza coastal area), the Egyptians will probably feel that they can negotiate with Israel without a complete loss of face. If, however, the PGI disregards outside pressure and adopts an uncompromising attitude toward Egypt, the negotiations will break down. Such a development would mean a renewal of the fighting or, at best, a continuation of the costly armed truce which is draining the strength of both sides.

Relations with UK The recent flare-up between Great Britain and Israel will probably not have any pronounced effect on the general Palestine problem. There appears to be an increasing tendency on both sides to regard the UK-Israeli imbroglio over the shooting of RAF planes merely as "a regrettable incident." Moreover, the Israeli UN representative, after receiving the views of the US, agreed not to press for an early meeting of the Security Council to consider Great Britain's allegedly menacing attitude toward Israel.

TRIPOLITANIA

Arab Position Arab leaders in Tripolitania have recently expressed their desire to bargain with the Italians, if the award of Tripolitania to Italy becomes imminent. The Arabs will use the threat of guerrilla warfare to obtain the best possible concessions. They seek assurances that Italy will: (1) place limitations on Italian investment, immigration, and landholding; (2) relinquish its trusteeship

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TRIPOLITANIA

at a definite future date; and (3) train Arabs for future administration of Tripolitania. These Arab leaders are convinced that only through some such arrangement can they reconcile the local population to Italian control and satisfactorily explain the delay in Tripolitanian independence. If such a deal with the Italians fails, Arab leaders might declare the independence of Tripolitania and appeal to the Arab states for aid.

SECRET**F A R E A S T**

Asian Conference The India-sponsored Asian Conference is expected to develop principally into an anti-colonial rally by the fifteen participating nations. Although the Conference (scheduled to meet in New Delhi on 20 January) was called for the purpose of considering the Indonesian problem, any Conference action will not greatly affect Dutch policy concerning Indonesia. The Conference may draft a plan for Indonesian independence to be submitted to the Security Council and may recommend either economic sanctions to hamper the Dutch or military and economic aid to the Indonesians, or both. Effective aid to Indonesia would be difficult in the face of the Dutch blockade and the possibility of Dutch military action. Continued denial to the Dutch of the use of airfields and ports in India, Pakistan, Ceylon, and Burma appears to be the most effective sanction possible at present. Although the Conference may stimulate pressure for a strong Asian bloc, its development will probably be retarded by the diverse interests of the various participating countries, their coolness to Indian leadership, and the lack of sufficient means to enforce any decisions taken. Any cleavage between Asia and the west, or criticism of the US on the grounds that it has indirectly supported Dutch colonial interests, will be thoroughly exploited by Soviet propaganda.

CHINA

Peace Bids Communist intransigence in response both to Chiang Kai-shek's bid for a negotiated peace and to mediation by the major powers has apparently strengthened Chiang's determination to continue resistance. This determination, coupled with reluctance by the major powers to engage in any mediation efforts, will temporarily

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SECRET**CHINA**

impede Nationalist peace efforts. In any case, the initiative still lies entirely with the Communists, who possess a preponderant military advantage on all fronts and can at any time launch successful military operations. Meanwhile, no one in the National Government appears capable of taking over Chiang's position until he willingly relinquishes his authority.

Communist Intent Recent broadcasts from Chinese Communist Party headquarters attempted to justify rejection of all Nationalist peace maneuvers by linking leading Nationalist war criminals with US imperialism. Although these remarks have been attributed to lesser Communist Party officials, thus leaving the door open for negotiations, they emphasize Communist intent to gain control over all of China either through peace negotiations or a military victory. These and other Communist broadcasts indicate that ultimate Communist objectives for China are: (1) a Communist-controlled government with a Soviet-style constitution for all of China; (2) destruction of the Kuomintang as a political party and the exclusion of its leaders from any future government; and (3) replacement of the US by the USSR as the dominant foreign influence in China.

Military Situation The Communist radio in north Shensi has warned all Nationalist generals defending positions in North China that they must surrender their forces at once in order to escape destruction by the Communist armies. The radio jeered at the hope for assistance from the US or Nanking and pointed to the fate of the surrounded Nationalist forces at Kalgan and Hsuehou.

SECRET**CHINA**

The radio offered lenient treatment for the officers in return for the transfer intact of all arms, assets, warehouses and industrial and communications equipment. For the third time, the Communists intimated that although Fu Tao-yi was high on their war criminals list, he could still atone for his past crimes by surrendering his entire force. Immediately following this warning, additional Communist forces moved from the Peiping encirclement to assist in the current assault on Tientsin. The capitulation of this North China industrial center is a matter of days. Meanwhile, in Central China the remnants of Tu Yu-ming's encircled army groups have been wiped out and Communist forces in this area are moving into position for their drive to the Yangtze.

Taiwan Base Chen Cheng, recently-appointed governor of Taiwan, in the first official statement supporting the numerous rumors that Chiang Kai-shek plans to utilize Taiwan as a temporary refuge, remarked that he would never permit the island to be invaded by either Communist forces or ideologies. Future Nationalist plans may be indicated by Chen Cheng's statement that "we shall endeavor to make Taiwan the main fortress for the rejuvenation of China." Other reported Nationalist activities pointing toward this utilization of Taiwan include transfer of gold, factories and technicians, and several thousand troops to the island. Chen has also privately expressed concern over the problem of rehabilitating railroads and harbors, perhaps with the thought of requesting US aid in the near future.

KOREA

Increased Sovietization Increased military and economic cooperation between Korea and the USSR points up a trend toward a Soviet satellite system in the Far East comparable to that already established in eastern

SECRET**KOREA**

Europe. In a recent pact, the (North) Korean People's Republic reportedly granted naval bases to the Soviet Pacific Fleet and agreed to develop several port facilities under the direction of Soviet engineers. The Soviet pattern is also apparent in North Korean economic developments. Joint stock companies have been set up in which the USSR claims a 50% share as its price for having eliminated the Japanese. Other reported agreements regulate the supply of Korean labor for work in the USSR and the nationalization of major industries and national industries. A Soviet system of agricultural collectivization may emerge slowly.

INDOCHINA

Bao Dai Return Although the French Government is making a major effort to reach an agreement with former Emperor Bao Dai, his projected return to Indochina from France will probably not result in the successful establishment of a Vietnam Government under his rule. France has lost prestige in Indochina as a result of Dutch action in Indonesia, and France's military and economic positions in the area have consistently deteriorated. Meanwhile, Vietnamese nationalists have grown stronger. The French are aware that the rapid economic rehabilitation of Indochina would greatly enhance Bao Dai's chances of political success and, consequently, the French Government will probably renew its efforts to secure direct US aid for Indochina.

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JAPAN

Coming Elections The Japanese national elections of 23 January will not substantially alter representation in the lower House from what it has been for the last three years. Premier Yoshida's conservative Democratic-Liberals, who have a plurality, will gain more seats but will not obtain a majority. The middle-of-the-road parties (Socialist, Democrat, and People's Cooperative) have lost popularity because of identification with the last two coalition Cabinets which have been associated with public scandal and continued economic hardship. The Communists, who only have 4 out of 466 seats in the present Diet, will make small gains but will continue to be an unimportant minority party.

SECRET**WESTERN HEMISPHERE****ARGENTINA**

UK Trade Argentina and the UK will probably reach agreement on a long-term trade pact, despite sharp haggling over terms during the renegotiation of the one-year Anglo-Argentine "Andes Agreement" which expires on 31 March 1949. During the talks, scheduled to begin in London soon, the British bargaining position will be greatly improved by: (1) Argentina's severe shortage of foreign exchange; (2) increased resistance in foreign markets to Argentine high prices and restrictive import policy; (3) inflation in Argentina and decreasing industrial production in certain lines which can be relieved only by expanding foreign trade. In the coming negotiations, the British will insist primarily that Argentina buy more so-called un-essential items such as automobiles, cutlery, and textiles, as well as acceptable industrial equipment and petroleum; whereas the principal Argentine demand will be for continued high prices on meat.

New Constitution Highly-centralized control of Argentine life and economy will probably be provided by the new constitution soon to replace Argentina's "Liberal Organic Law" of 1853 which was modeled on the US Constitution. The Peron-dominated convention of 17 January is expected to approve a constitution which will: (1) permit a President of Argentina to succeed himself; (2) place sharp limitations on the rights of private property; (3) establish state control of foreign trade, public services, and the organization and development of natural resources. In getting support for his constitutional reform program, President Peron has endeavored to be all things to all people, with varying degrees of success. The

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ARGENTINA

last-minute Communist attack on Peron's program, however, suggests that the Communists now believe that Peron intends to follow through with his professed desire to rid Argentina of Communism by 1952. Although Peron may have proposed these extreme constitutional reforms in order to appease various groups, he may actually be moderate in the exercise of his new powers or even not exercise them at all. In any case, Argentina's present desperate straits in finance and trade, both domestic and foreign, will certainly militate against any rash measures in economic policy.

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6. Secretary of the Navy
7. Secretary of the Air Force
- 8,70. Chairman, National Security Resources Board
9. Executive Secretary, National Security Council
10. Assistant Secretary of the Navy for Air
- 11,69. Chief of Staff, U.S. Army
- 12,13,14. Chief of Naval Operations
- 15,16,17. Chief of Staff, U.S. Air Force
18. Director of Plans and Operations, General Staff, U.S. Army
19. Deputy Chief of Staff (Operations) U.S. Air Force
20. Deputy Chief of Naval Operations (Operations)
21. Director of Plans and Operations, U.S. Air Force
- 22,23,24. Special Assistant to Secretary of State for Research
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- 25,26,27,28,29, 30,31,32,33,34. Director of Intelligence, General Staff, U.S. Army
- 35,36,37,38,39, 40,41,42,43,44. Chief of Naval Intelligence
- 45,46,47,48,49. Director of Intelligence, U.S. Air Force
50. Director of Security and Intelligence, Atomic Energy Comm.
51. Executive Secretary, Military Liaison Committee,
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- 52,53,54,55,56. Chief, Acquisition & Distribution Division, OICD, Dept. State
57. Director, Federal Bureau of Investigation
58. Secretary, Joint Chiefs of Staff
59. Chief, Policy Planning Staff, Department of State
60. Secretary of State (Attention: Chief, Policy Reports Staff)
61. Deputy Director, Joint Intelligence Group, Joint Staff
- 62,63. Secretary, Joint Intelligence Group, Joint Staff
64. Director, Joint Planning Group, Joint Chiefs of Staff
65. U.S. Air Force Representative on Joint Strategic
Survey Committee
- 66,67. Secretary, State-Army-Navy-Air Coordinating Committee
68. Administrator, Economic Cooperation Administration

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